

Water—Connecting State Funding to Local Communities

BACKGROUND

Water Management in California

State and Federal Responsibility for Water Management. The state’s primary role in water management is to focus on water supply, water quality, and flood control. Many agencies are involved with water management at the state level. The primary two state agencies are the Department of Water Resources (DWR) and the State Water Resources Control Board (SWRCB). The DWR focuses on water delivery, water supply planning, and infrastructure development. The SWRCB is more of a regulatory body, managing water rights and water quality permitting (both of which have an impact on water supply). Most other state agency responsibilities center on specific mandates such as pesticide regulation, management of specific water resources, or public health.

Similar to the state, federal agencies also have distinct roles. The US Environmental Protection Agency (US EPA) focuses on water quality; the Bureau of Reclamation focuses on water supply; and the Army Corps of Engineers focuses on infrastructure and flood control. Both state and federal entities estimate and participate in California water supply planning, particularly as it relates to the Central Valley and the Sacramento-San Joaquin River Delta system (Delta).

Local Responsibility for Water. The majority of day-to-day water supply and water quality actions take place at the local level. Nearly all direct water supply is provided by a local purveyor, whether a special district or local jurisdiction (county/city). Similarly, water treatment (post-beneficial use) is a local responsibility. Sanitation districts provide local wastewater treatment, for example, while agricultural and major manufacturing may treat wastewater individually. In each case, permits are required by state and local agencies in order to comply with state and federal water quality rules.

According to the Public Policy Institute of California (PPIC), as seen in the following table, locals are responsible for about 84 percent of water spending in California. The state pays about 12 percent, and federal agencies contribute about four percent. This makes sense when one looks at how individuals pay for their water and wastewater needs. Local water and sanitation districts purchase water supply for a community and pay for the treatment of water after it has been used and local users are then billed monthly for the associated costs. The local agency may then be subject to a state permit for water for overall water quality.

**Yearly Water-Related Spending in California by Source
2008-2011
(Dollars in Millions)**

Purpose	Local	State	Federal	Total
Water supply	\$14,777	\$1,603	477	\$16,857
Water pollution control	9,458	434	222	10,114
Flood management	1,324	574	254	2,152
Aquatic ecosystem management	25	405	241	671
Debt service on GO water bonds	0	689	0	689
Total Spending	\$25,584	\$3,705	\$1,194	\$30,483
Total Spending (%)	84%	12%	4%	100%

Source: *Paying for Water in California*, Public Policy Institute of California, (Hanak, et al.) 2014.

Some communities work together to secure water supply or to pay for wastewater treatment. For example, the Metropolitan Water District (MWD) contracts water supply from the State Water Project, and Colorado River (among others), and acts as a wholesaler for most Southern California urban water. The MWD also develops and maintains water storage facilities within its jurisdiction.

According to the PPIC (*Paying for Water in California*, 2014), “water system development from statehood to the early 20th century was almost entirely locally funded, including flood works, irrigation canals, and large-scale storage and conveyance systems to bring water and hydroelectric power to growing urban areas in the Los Angeles and San Francisco Bay regions.” Various events in history have prompted state or federal funding of water projects, including the Great Depression (Central Valley Project) and the development of the State Water Project (SWP) in the 1960’s. However, in the particular case of the SWP, nearly 94 percent of the project was funded by local entities and this practice continues today.

Bay Delta Conservation Plan—the State’s Latest Major Water Project. The Sacramento-San Joaquin Delta (Delta) is a central part of the two major water delivery systems in the state—the SWP and the federally-managed Central Valley Project (CVP). From these two projects a majority of Californian’s derive all or part of their drinking water supply, and one-third of the state’s cropland receives water flowing from these projects. The state, after having spent two decades and \$3 billion studying ways to help protect and restore the Delta, has embarked on a new water conveyance program, the Bay Delta Conservation Plan (BDCP). The BDCP is intended to help achieve co-equal goals by improving the Delta ecosystem and providing water supply reliability. Central to this is the development of tunnels and new conveyance to move water more efficiently through the Delta from north to south.

Over \$176 million has been spent on planning activities related to the BDCP since 2006. Water contractors (those receiving water from the SWP and CVP), as well as state and federal agencies, have funded most of the BDCP to date. The BDCP estimates that the total cost of the BDCP, over a 50-year timeframe, is about \$25 billion. Outside estimates have suggested this is under-forecast and put future costs upwards of \$50 billion. It is unknown how much of these costs will be borne by locals or by the state. Annual investment in the Delta, for levee repairs, water supply, and flood control varies greatly depending on bond appropriations.

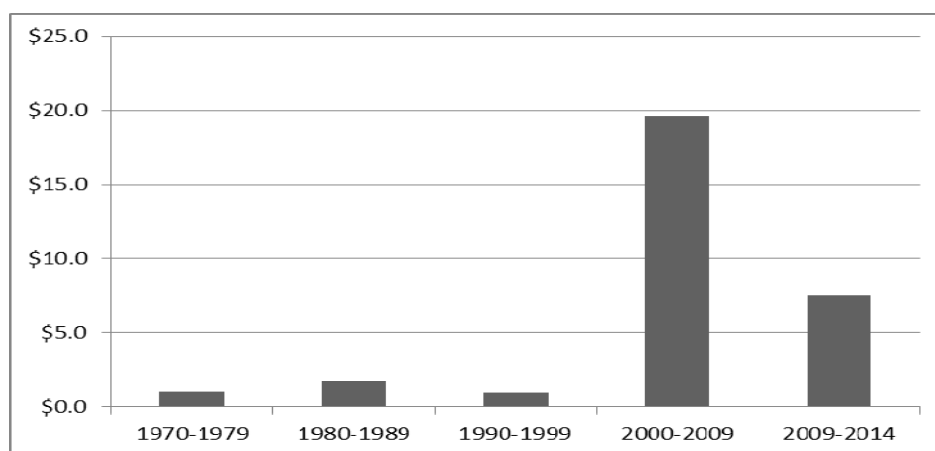
The Role of State Water Funding

State Water Policy, Direct Funding, and Water Bonds. Given that most direct water supply and management is executed by locals, what then is the ongoing role of state water funding? Beginning in 1952, the state's role in water management has been to develop statewide water systems to move water from where it occurs (mainly in the north and eastern Sierra Nevada) to population centers and agricultural areas. Much of the rainfall occurs in the north of the state, while much of the demand is in the south. As a result, the SWP was designed in the 1950's as a complex system for storing and transporting water through much of the state.

State Revolving Loan Funds—Response to Local Needs. In addition to water supply needs, various state and federal water laws have necessitated additional funding beyond what locals may have been capable of raising themselves in a reasonable timeframe. For example, the passage of the 1972 federal Clean Water Act was acknowledged as a groundbreaking law requiring water used for any purpose to be treated before being returned to rivers, streams and groundwater, in order for downstream or future users of the water to be able to access clean water. At the time, however, funding from state and federal agencies was needed to upgrade wastewater systems. The federal government established an ongoing funding stream (state wastewater revolving loan programs) that would provide funding to the states, for grants to locals, for wastewater system upgrades. This amount has varied substantially but currently is budgeted at about \$137 million in 2015-16. Similar to this ongoing revolving loan fund, a drinking water loan fund was established to provide drinking water system upgrades.

Bond Funds—Water Funding for Local Projects. As shown in the figure following, separately from state and federal-initiated programs, since 1970, the state's voters have authorized about \$30 billion in water-related general obligation (GO) bonds, mainly for water quality and drinking water purposes. While some of these bonds have been used for land conservation and habitat protection, the vast majority of funds were for water management. In the 1970's; bond funds were mainly for clean water and drinking water grants to locals. In the 1980's; the voters began to approve bonds that included watershed preservation, specific land preservation (Lake Tahoe), and habitat enhancements. In nearly every bond, state agencies were given the management of the funds, but the majority of the dollars were delivered to locals through formulas or grant programs. Recent bonds have provided local assistance to the Integrated Regional Water Management (IRWM), focused on enhancing local control of projects.

**History of Water Bonds
2001-2014
(Dollars in Billions)**



Sources: Legislative Analyst's Office, *California Water: A Primer*, 2008. Proposition 1, 2014.

Bond Funds for Flood Management. Starting in 2006, state bond funds approved by voters began to include flood control as a major purpose. The driving need for this funding was the deterioration of the state system of flood control, for which the state holds much of the liability should breaks or disaster occur. A local lawsuit (*Paterno v. State of California*, 1999) required the state to take responsibility for certain flood system upgrades, necessitating billions in state expenditures for projects. At the same time, local and federal projects (mainly through the Army Corps of Engineers) continued to require state matching funds, which have mainly been provided through bond funds. In November 2006, voters approved the Disaster Preparedness and Flood Prevention Bond Act of 2006 (Proposition 1E), providing \$4.1 billion in generation obligation bonds for flood control projects and required that all funds be appropriated by July 1, 2016.

New Bond Approved in 2014. In November 2014, voters approved the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1). This bond provides \$7.5 billion in general obligation bond funds for projects that improve water supply, protect and restore watersheds, improve water quality, and increase flood protection. The majority of funds are designed to be allocated to existing state programs that provide grants and loans to local entities.

Emergency Measures and Drought Funding. The state also, from time to time, provides emergency funding for specific needs. In 2014, the Governor declared a drought emergency and the Legislature responded with early funding to immediately send money to state and local agencies for drought-related activities. These activities ranged from water supply projects to food assistance and work training for those impacted by the drought, mainly in agricultural areas. Over a two year period, the state provided over \$838 million, mainly from the General Fund and bond funds, for various drought-related activities.

GOVERNOR'S PROPOSAL

The Governor's budget provides three distinct water-related proposals described below.

Proposition 1. The Governor's budget proposes \$532.2 million from Proposition 1 bond funds in five main categories. As shown in the table below, allocations include \$178 million for watershed protection and restoration; \$137 million for water recycling, funding for local waste water and drinking water programs; \$60 million for water supply reliability; and, \$22 million for groundwater programs and projects. The proposal ties to the Governor's Water Action Plan, an executive initiative released in 2014 that identifies actions the Administration plans to take over the next five years.

Proposition 1E. The Governor's budget proposes \$1.1 billion (mostly Proposition 1E bond funds), and numerous reappropriations, for DWR to support various, mostly ongoing, flood control activities. The majority of funds are proposed for capital outlay projects, and a smaller percentage is proposed for local assistance and state operations. The bond was written in a way to allow for flexibility in the appropriation process, so while these amounts are proposed by the Administration, the Legislature has some flexibility in its response to the proposals.

Additionally, because of bond requirements that all funding from Prop 1E be allocated before July 1, 2016, the Administration proposes to give DWR ten years to commit the funds to projects and an additional two years to expend the funds. A typical appropriation timeframe is three years for capital projects. The proposal would also to allow the department to shift funding between programs and projects without seeking approval from the Legislature. Perhaps most significantly, the Governor proposes to move this funding in advance of the normal budget process to accelerate flood funding.

**Proposition 1
Governor’s Proposed Allocations
(Dollars in Millions)**

Purpose	Primary Focus (State or Local)	Department	2015-16 (Proposed)
Watershed Protection and Restoration			\$178.0
Watershed restoration projects	State*	Various (mainly state conservancies)	\$139.1
Enhanced stream flow projects	Local	Wildlife Conservation Board	\$38.9
Water Recycling			\$137.2
Water recycling projects	Local	SWRCB	\$131.7
Water recycling and desalination	Local	Water Resources (DWR)	\$5.5
Safe Drinking Water			\$135.5
Drinking water treatment projects	Local	SWRCB	\$69.2
Wastewater treatment projects	Local	SWRCB	\$66.3
Water Supply Reliability			\$59.9
Integrated regional water management	Local	DWR	\$32.8
Water conservation	State/Local	DWR	\$23.2
Improvements to state water system	State	DWR	\$3.3
Stormwater management	Local	SWRCB	\$0.6
Groundwater Sustainability			\$21.9
Groundwater management	State/Local	DWR	\$21.3
Groundwater contamination	State/Local	SWRCB	\$0.6
Total*			\$532.5

*Mainly allocated to state conservancies with a local focus.

Drought Proposal. Finally, the Governor proposes a second-year of drought funding in response to the ongoing low rainfall and snowpack. As shown in the following table, and as discussed previously, the Legislature appropriated over \$838 million (mostly bond funds) in 2013-14 and 2014-15 for various drought-related programs. The budget proposes an additional \$115 million (\$93.5 General Fund), to continue many of these activities in 2015-16. Of this amount, over half is directed to the Department of Forestry and Fire Protection (CalFIRE) for expanded fire suppression and prevention activities.

**Drought Plan
Governor’s Proposed Allocations
(Dollars in Millions)**

Purpose	2014-15 (Actual)	2015-16 (Proposed)
Increased fire suppression and prevention	\$66	\$62
Emergency drinking water supplies	\$0	\$16
Actions to protect fish and wildlife	\$39	\$15
Emergency water supply and education	\$18	\$12
Emergency regulations and enforcement	\$4	\$7
Drought response coordination	\$4	\$4
Food assistance	\$5	*
Groundwater cleanup and management	\$9	\$0
Water conservation in state facilities	\$5	\$0
Total**	\$151	\$115

* Does not reflect \$7 million carryover from 2014-15

** \$687.4 million was appropriated in 2013-14 as part of the 2014 drought package. This amount focused on integrated regional water management grants, flood control and accelerating the Governor’s water proposals.

ISSUES FOR CONSIDERATION

What is the Greatest Need of Local Communities for State Assistance? Given that most water funding takes place at the local level, the Legislature should consider the state’s greatest need when allocating state dollars for local assistance. For example, poor quality drinking water in some communities was among many issues raised by stakeholders during the previous year’s reorganization of the state’s drinking water programs. Parts of the Central Valley have ongoing water quality problems that result in a complete lack of safe drinking water. These issues have been well-documented, but have not been sufficiently addressed. This problem is not isolated to the Central Valley and persists in many lower-income and disadvantaged communities which may not be able to raise the financial capital needed to address the problems.

In addition, local areas in the Delta are unable to fully pay for levee repairs. While this may not ordinarily rise to the level of a state concern, the need for water to move through the Delta statewide needs gives the Legislature an ongoing interest.

Finally, in many low-income and disadvantaged areas, local planning has reduced access to clean water sources and watershed activities. For example, in the Los Angeles basin, decisions in the

early 1900's to concrete rivers in order to avoid local flooding had the secondary effect of reducing urban greenways, and the potential for groundwater recharge. Many of these communities are unable to reverse this action without significant outside funding. The Legislature may wish to consider how and where to fund these types of projects.

How can Disadvantaged Communities Better Access Funding? During the negotiations related to reorganization of the drinking water programs from the Department of Public Health to the SWRCB, several local stakeholders proposed the inclusion of an office within the SWRCB to provide more direct access for disadvantaged communities to revolving loan funds for drinking and wastewater. The Legislature may want to consider legislation that would ensure those with the greatest need have an advocate within the state administration to help access necessary resources.

How Should the State Respond if the Drought Continues? The state may be entering a historic period of drought. Given climate change and the state's propensity for long-term drought scenarios, the Legislature should consider how it wishes to address drought funding. To be sure, immediate needs such as food and emergency drinking water assistance cannot be avoided. However, the Legislature should also consider that very few of the past 100 years have been "normal water years." California either has too much or, more often than not, too little water. Given this history, how can the state and local communities become more self-reliant and resilient to the obvious and ongoing fluctuations of water supply within the state.

Should the Legislature Advance Flood Funding as Proposed by the Governor? In its debate of the Governor's proposal to approve a water proposal prior to the normal budget cycle, the Legislature should consider several factors, including, but not limited to: high need projects, and projects that benefit underserved communities, for which early approval would benefit the state and local communities; the ability of DWR to move funding in a timely fashion; whether early funding is for scheduled and ongoing projects or new projects; the necessity of a 10-year appropriation authority; and how to best ensure important legislative oversight and expenditure authority.

What Alternatives Should the Legislature Consider? The idea of an early water bill is not new. However, the Legislature should consider what it wants to accomplish with an early water bill. Is the purpose of the bill to get funding to local areas to begin new projects and to create water supply reliability in the short- and long-term? If so, the Proposition 1 bond fund and drought proposals may accomplish this more aptly than ongoing flood funding. Within the drought proposal, the Legislature should consider early funding only for those programs that could begin moving funding out the door prior to the June 15 budget deadline. For example, CalFIRE received \$66 million from the 2014 drought package for a full year of fire suppression and prevention activities. Would advancing additional funds to CalFIRE before July 1 make fiscal sense? What oversight might budget committees wish to exercise prior to additional appropriation?

What is the Role of Budget Oversight? Finally, the budget committees are committed to providing robust oversight and have done so in recent years. The Governor's budget proposals, while consistent with previous years and the voter-approved bonds, should be evaluated

thoroughly, particularly those that depart from the norm (such as a 10-year appropriation authority for flood projects). The Legislature should consider what level of scrutiny is necessary for each category of appropriation and only advance funding for those projects that do not require extensive legislative oversight.